

Message Text

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ACTION ARA-20

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SUBJECT: COMPENSATORY IMPORT EXCHANGE RATE PHASED OUT

REF: A. BUENOS AIRES 2409, B. BUENOS AIRES 2321, C. ECONOMIC
ALERT LIST, LATIN AMERICA, APRIL-JULY 1974

1. BEGIN UNCLASSIFIED. GOA TERMINATED PROGRAM OF COMPENSATORY PESO/DOLLAR EXCHANGE RATES FOR IMPORTATION OF CRITICAL INDUSTRIAL SUPPLIES AS OF MAY 6. OPENING OF NEW LETTERS OF CREDIT UTILIZING NOMINAL RATE OF FIVE PESOS PER DOLLAR CONTINUED THROUGH THAT DATE IN ACCORD WITH RESOLUTION OF EARLIER CONFLICT BETWEEN CENTRAL BANK AND MINISTRY OF ECONOMY OVER IMPORT SUBSIDY POLICY (SEE REFS A AND B). ARGENTINE IMPORTERS MUST NOW OBTAIN FOREIGN EXCHANGE FOR ALL TRANSACTIONS AT PESO/DOLLAR RATES IN EFFECT PRIOR TO JANUARY INITIATION OF SPECIAL COMPENSATORY RATES; THAT IS, EITHER 8.68/1.00 FOR MATERIALS AND GOODS CONSIDERED MORE IMPORTANT FOR CONTINUED INDUSTRIAL ACTIVITY OR 9.98/1.00 FOR PRODUCTS DEEMED LESS CRUCIAL. HOWEVER, IMPORTERS WILL NOW BE ABLE TO REQUEST AUTHORIZATION TO PASS HIGHER IMPORT PRICES THROUGH TO THEIR DOMESTIC SELLING PRICES, AS PART OF GENERAL

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POLICE SHIFT AWAY FROM PRICE FREEZE TOWARD MORE FLEXIBLE,

"ADMINISTERED" PRICES. END UNCLASSIFIED

2. BEGIN LOU. IMPORT AUTHORIZATION REQUESTS RECEIVED BY MINISTRY OF ECONOMY DURING APRIL SUBJECTED TO MUCH TIGHTER SCRUTINY THAN DURING PREVIOUS THREE MONTHS. RELIABLE TRADE SOURCE FAMILIAR WITH GOA IMPORT CONTROL OPERATIONS INDICATES SUBSECRETARIAT FOR INTERNATIONAL COMMERCIAL AND ECONOMIC RELATIONS REJECTED OVER HALF OF ALL REQUESTS SUBMITTED IN FINAL PERIOD UNDER THIS PROGRAM. VALUE OF IMPORTS THUS AUTHORIZED BETWEEN APRIL 2 AND MAY 6 PROBABLY NO MORE THAN US\$50 MILLION. THIS WOULD BRING TOTAL TRANSACTIONS UNDER COMPENSATORY EXCHANGE RATE SYSTEM TO APPROXIMATELY US\$280 MILLION. ACTUAL IMPACT OF THESE OPERATIONS ON EARNINGS SQUEEZE SUFFERED BY MOST LOCAL FIRMS PROBABLY MINIMAL, THOUGH LAG IN EFFECTS AND SCANTY OFFICIAL DATA WILL MAKE IT ALMOST IMPOSSIBLE TO DETERMINE THIS WITH ANY PRECISION. ACTUAL REDUCTION IN FOREIGN EXCHANGE COSTS FOR MOST PRODUCTS WAS SMALL, WITH VARIABLE SURCHARGES ADDED TO BASE RATE OF FIVE TO ONE, AND DID NOT COMPENSATE IN FACT FOR RECENT INFLATION IN INTERNATIONAL MARKETS. NO PROTESTS NOTED WHEN SYSTEM ENDED.

3. HOSTILITY OF CENTRAL BANK PRESIDENT GOMEZ MORALES TO THIS PROGRAM APPARENTLY SURVIVES ITS TERMINATION. HE IS REPORTED BY TRADE SOURCES TO HOLD THAT PERHAPS 80 PER CENT OF ALL REQUESTS APPROVED BETWEEN JANUARY AND APRIL WERE FRAUDULENT ATTEMPTS TO TAKE ADVANTAGE OF THE LOWER EXCHANGE RATE, WHETHER TO BUILD STOCKS OR TO MOVE FUNDS ABROAD ILLEGALLY THROUG UNDER-AND OVER-INVOICING. CENTRAL BANK INSPECTORS NOW ENGAGED IN CHECKING RECORDS OF EVERY IMPORTER WHO UTILIZED THE PROGRAM, WITH EXPECTATION OF LEVYING HEAVY FINES AND OTHER PENALTIES IN CASES WHERE DOCUMENTATION SHOWN TO HAVE BEEN FALSIFIED.

4. COMMENT. LIQUIDATION OF SO-CALLED FIVE-TO-ONE RATE SERVES TO RATIONALIZE GOA IMPORT POLICY SOMEWHAT, AND IS BEST VIEWED AS PART OF OVERALL ADJUSTMENT OF ECONOMIC POLICY TOWARD LESS RIGID "PHASE II" POSTURE. AFTER MONTHS OF STRAINING TO HOLD DOWN PRICE INDICES, GOA NOW ACCEPTING INEVITABILITY OF DOMESTIC INFLATION IN CONTEXT OF WORLD PRICE TRENDS, ALBIET AT RATE MUCH BELOW THOSE PREVAILING TOWARD END LIMITED OFFICIAL USE

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OF MILITARY GOVERNMENT. QUESTION REMAINS HOW FLEXIBLE BUREAUCRACY WILL BE IN ALLOWING INDUSTRY TO PASS THROUGH INCREASES IN IMPORT COSTS, THOUGH SOMEWHAT MORE OPTIMISM ON THIS POINT IS EVIDENT IN BUSINESS CIRCLES NOW THAN IN PREVIOUS MONTHS. COMPENSATORY EXCHANGE RATES, IN ANY CASE, WERE NOT REGARDED AS VERY EFFECTIVE ASSIST IN DEALING WITH INTERNATIONAL INFLATION AND CONSTRICTION OF LOCAL EARNINGS. MANY WOULD APPARENTLY AGREE WITH GOMEZ

MORALES THAT MEASURE WAS DUBIOUS EXPEDIENT, OPENING DOOR
MAINLY TO ILLICIT FOREIGN EXCHANGE MANIPULATIONS. EPISODE
ALSO INTERESTING AS EXAMPLE OF CONTINUING CONTEST BETWEEN
GELBARD AND GOMEZ MORALES OVER ECONOMIC AND MONETARY POLICIES.
END LOU.
HILL

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